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WESTERN EUROPE DIVISION
OFFICE OF REPORTS AND ESTIMATES
CENTRAL INTELLIGENCE AGENCY

WORKING PAPER

DIVISION WEEKLY

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Included in this issue is a special article on:
French Cartels Threaten Trade Liberalization

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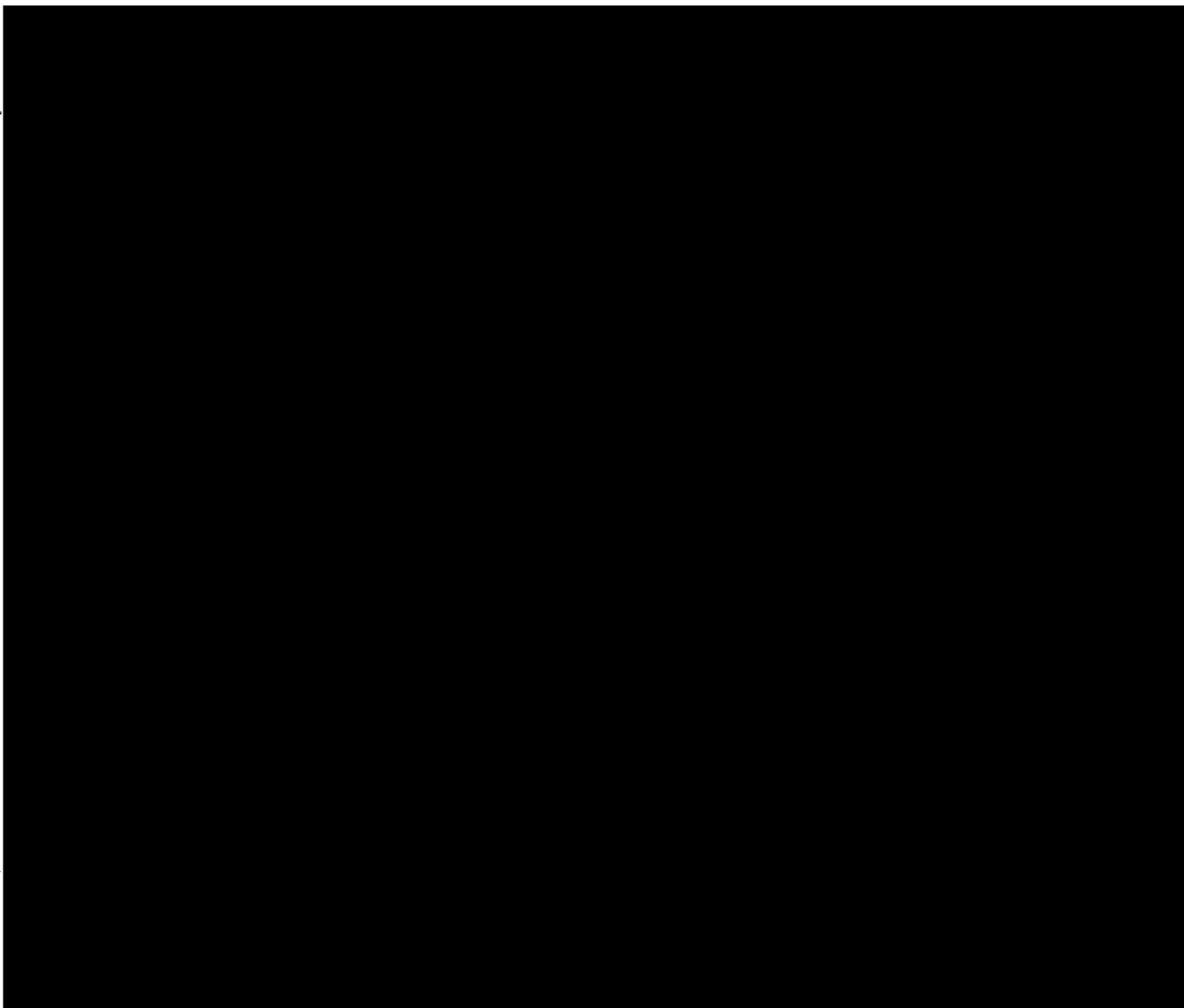
WEEKLY SUMMARY

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For week ending
4 April 1950

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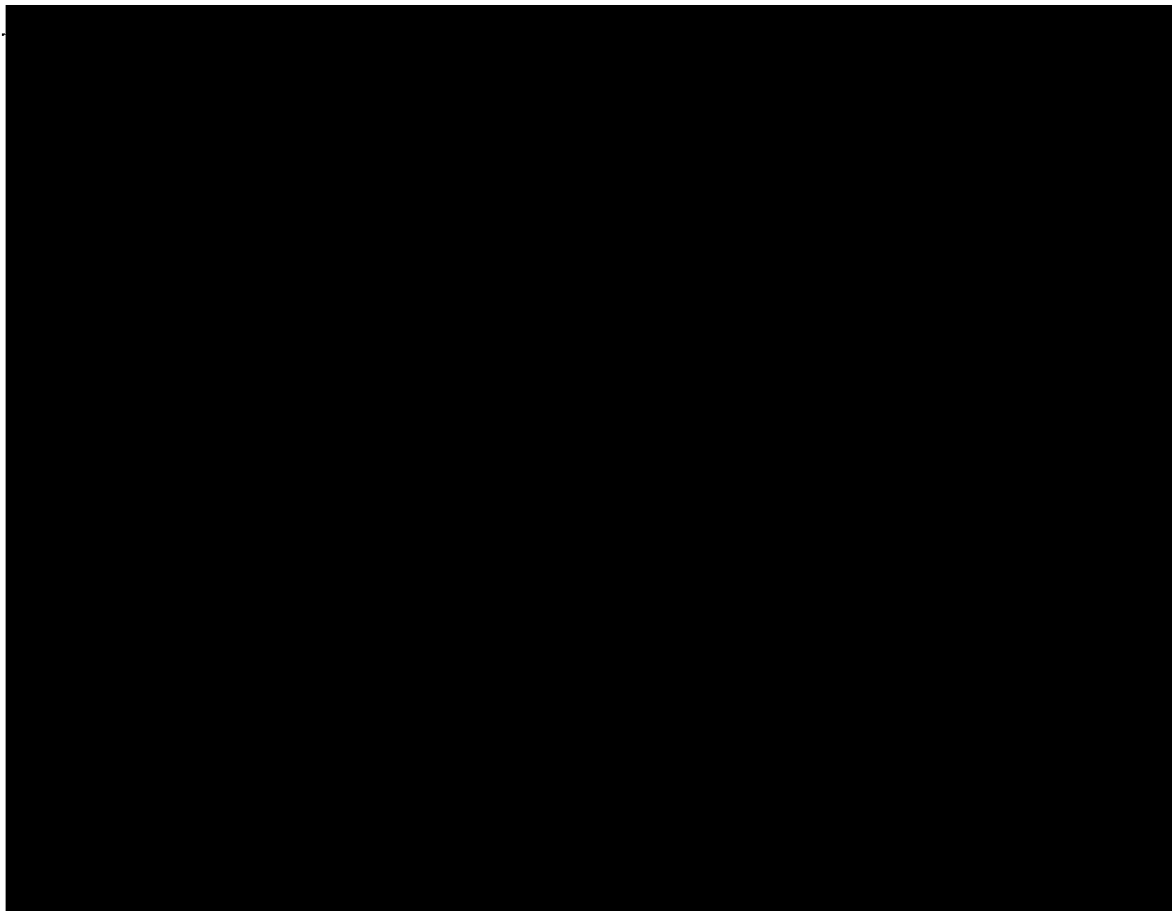
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FRANCE

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The French Communist Party (PCF) will intensify its "peace campaign" during the next few weeks by spreading military defeatist propaganda and provoking manifestations against the MDAP. PCF leaders, however, will probably slacken their efforts to incite labor unrest. Leaders of the Communist-led General Confederation of Labor (CGT) have recognized both the apathy prevalent among workers during the recent strikes and the inability of the PCF for the moment to exploit politically labor's legitimate demands for higher wages. While CGT leaders are laying the groundwork among labor unions for unity of action in future struggles, the PCF will use CGT workers and Party militants to promote widespread demonstrations against the unloading, transport, and manufacture of war materiel in principal ports and

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industrial centers. Recent indications are that the PCF has also issued instructions to members to devote their individual efforts to effect work stoppages and sabotage in the manufacture of war materiel whenever opportunities arise.

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It is unlikely that France will take the steps necessary to augment its dollar earnings substantially in the near future, despite the general conviction among US and French officials that these earnings must be greatly increased before the close of the ERP. The requisite increase in dollar exports, which have been almost stationary since 1948, depends upon the accomplishment of long-range reforms in the French economy.

The French Government professes to be eager to promote exports to the dollar area, and in December 1949 created the Dollar Export Board to study the problem. For its part, however, the Government is too absorbed in the problems of political instability to promote the necessary reforms. The first requirement is a change in French production techniques, which are badly outmoded. Then, the fundamental outlook of French businessmen, who prefer limited but sure markets, must be altered to favor efforts at sales development. Recently, the Government provided some incentive for an altered outlook by permitting exporters to retain 3% of their earnings in dollars for unrestricted expenditure. The French Government could simplify administrative export procedures to speed shipments and thereby reduce costs. Furthermore, if French goods are to be sold widely in the US, they must be priced substantially lower, or US trade barriers (primarily high tariffs and complicated customs procedures) must be reduced.

France could do something to increase her dollar earnings immediately, though inadequately, by promoting sales to tourists. Appropriate sales facilities could be set up, and publicity given to the privilege of US citizens of bringing home \$400 worth of goods duty free.

Of slight value in eliminating the dollar shortage now, but of great potential value after the termination of the ERP, is the development of the production of raw materials in the Overseas Territories, gradually obviating the necessity for buying these materials in the dollar area.

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The fast diminishing strike wave in France will have substantial economic and political repercussions for the workers, their unions, and the Government. The workers are going back to the job disillusioned with the meagre gains achieved by their initial efforts to bargain collectively. This failure will add weight to the argument of the unions that they need a larger membership so as to be financially prepared for really effective strikes in the future. The Communist-controlled CGT (already the largest union in France) will have gained the initial advantage in the competition for membership, because it maintained strikes after the other unions capitulated. It can now blame the others for failure to obtain greater increases, as the CGT obviously could not maintain strikes single-handed, fighting both the employers and the other unions. Though the CGT has, for the moment, gained the upper hand, the membership of all unions will gradually be augmented to some extent. The CGT, moreover, will squander some of its initial advantage by inciting purely political demonstrations, which are unpopular with the workers. It is probable that any substantial increase in the membership of the Force Ouvriere (FO) will hinge upon its ability to spur the Socialists to more favorable action on behalf of the workers, and upon an improvement in the union's leadership.

Meanwhile, the Government, having been the acknowledged pace-setter in wage negotiations, has incurred the enmity of the workers by holding all wage increases to about 5%. Even Premier Bidault's recommendation of production bonuses of 1 to 3% in public and private enterprises, and rapid development of low-cost housing, will not suffice to prevent more strikes, especially at the local level.

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Further direct appeals for Franco-German unity by German Chancellor Adenauer, and Gaullist support of such appeals, are likely to discourage the Bidault Government in its cautious approach to eventual Franco-German reconciliation within the Council of Europe. Despite the current favorable trend in the French Government toward a rapprochement, the French people continue to regard Germany with suspicion and distrust. Mindful of the damage suffered at the hands of their neighbor in two wars within 25 years, the French will be slow to believe that German proposals for Franco-German unity are made in good faith. Chancellor

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Adenauer's recent press interview in which he suggested a Franco-German economic union brought strongly unfavorable reactions in France. Some segments of public opinion express the fear that Germany would dominate such a union, with France sinking to a subordinate role in western Europe, while others contend that Franco-German rapprochement should be worked out within a western European federation. The fact that Adenauer chose to advance his idea through the press, whatever his reasons for doing so, also evoked considerable resentment.

FRENCH AND SPANISH NORTH AND WEST AFRICA

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The Moroccan Protectorate Government will continue its policy of proscribing native labor unions while tolerating the membership of natives in the Communist-directed General Confederation of Labor (CGT). Of an estimated 50,000 union members in Morocco, fewer than half are natives, and these represent about 10% of a probable native labor force of 250,000. Of the total union membership, some 30,000 belong to the CGT.

Were a native union permitted to form, as in Tunisia, a higher percentage of native labor would become organized, and, in addition, the CGT membership probably would be halved. The protectorate administration considers nationalism a greater threat to French rule than Communism, and therefore, prefers Communist to nationalist control of labor. The administration, moreover, seeks to discredit the nationalists by claiming that the affiliation of some members of the Istiqlal with the CGT, proves the existence of nationalist-Communist collaboration at the "grassroots" level.

The recent wave of strikes in Morocco failed to win any appreciable advantages for labor or the CGT, and workers have been antagonized by Government action to terminate one strike, and by the trial of strike leaders. French officials are acutely conscious that some concrete action must be taken soon to ameliorate working conditions and raise wages in order to avert more serious labor difficulties. A seasonal slump has, however, postponed the urgency of such action, and sporadic strikes probably will continue.

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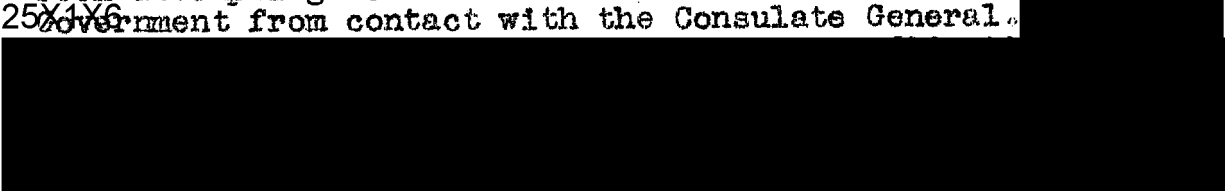
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The planning and execution of a Point IV program for French West Africa (FWA) would run into more than the normal amount of difficulty because of the negative attitude of the French High Commissioner, Paul Béchard, toward US aid and interests.

Since the temporary cessation of Marshall aid, while a US investigation turned up evidence of its serious maladministration in FWA, the High Commissioner has apparently been attempting to seal off all the functionaries of his government from contact with the Consulate General. 25X1X6

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Not only has there been an undercurrent of suspicion and resentment of US interest in FWA among the higher echelons of the French administration for some time, but there is also evidence that the British are cool to the idea of US participation in the economic life of the territory.

The Director of the Cabinet for the High Commissioner (Jean Ramadier, son of ex-Premier Paul Ramadier) is known to have a low opinion of the possibilities for further development of FWA, and to hold the view that US colonial policies are "setting a dangerous example for natives".

THE NETHERLANDS

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Some of the most controversial issues on the agenda of the Dutch-Indonesian Union Conference, which ended 1 April, remain unsolved and will continue to make close cooperation difficult. The fact that neither side attempted to force a decision on these issues indicates, however, that no serious strain has been placed on Dutch-Indonesian relations at this time. Joint commissions were appointed to study the questions of New Guinea and the employment of Dutch citizens in the Indonesian Government, as well as other less debatable subjects. The problem of responsibility for pensions to Dutch civil servants has been referred to the Union court.

On the positive side, agreement was reached on a Dutch 200-million-guilder loan to Indonesia, and on the

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establishment of a temporary Dutch military mission of not more than 800 men, to be replaced later by a permanent mission, to advise the Indonesians on the development of their armed forces. The relatively small size of the loan indicates that the concern of the Netherlands Finance Minister over Dutch budgetary problems overshadowed the desire of some of the Dutch officials to extend the maximum aid to Indonesia and strengthen Dutch-Indonesian trade ties.

Although the atmosphere of the Conference itself was friendly, daily working-level Government and business contacts will ultimately determine the extent of cooperation and the value to both countries of maintaining close ties.

ITALY

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The Italian Government's problem of preserving public order in the face of the Communist offensive may be made more difficult by an increasing number of clashes which are likely to occur between the Italian Communists and members of the neo-Fascist party, the Italian Social Movement (MSI).

The MSI has lately shown increased vigor, particularly in areas near Communist strongholds. It may be receiving greater financial support, especially from large landholders who are concerned lest the Government succeed in promulgating agrarian reform measures and are fearful of the growing number of Communist-led land seizures.

The MSI, however, does not in itself pose aggrreat problem to the Government, at least at present; but it does afford the Communists a two-edged sword in their offensive against the Government. On edge is the considerable civic disturbance and anxiety generated since the first of the year by a score of more violent incidents between the two groups. (The police have not been successful in preventing these clashes, although they have been able to quell them more or less effectively once they have started.) The other edge is the exploitation in Communist anti-Government propaganda of neo-Fascist activities. The Communists allege that the Government's failure to bring legal action against the MSI testifies to the unconstitutionality of the Government. (The constitution denies political rights to Fascists or groups of a Fascist nature.)

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This developing situation could be dangerous, if the Government should fail to meet the challenge adequately. On the other hand, clashes between the two extremist groups present the Government with an excellent opportunity to deal with the Communists and neo-fascists in the common category of law breakers. By directing early police and legal action against the leaders of both extremist factions, the Government will probably prevent the development of any situation similar to that of 1922, when a much weaker government succumbed to the Fascists. The lack of appropriate Government measures against the extremists would, in 1950, make the Communists, not the Fascists, the beneficiaries.

THE VATICAN

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Leopold's current negotiations for return to the throne of Belgium are a subject of concern to the Holy See and of disagreement within Vatican circles. Some Vatican leaders are probably giving unofficial support to the position of the Belgian Catholic Party, which favors the return of Leopold. Others, equally anxious for maintenance of the monarchy, believe the exiled King's inability to symbolize national unity would jeopardize his chances for heading a stable Belgian Government. They would probably prefer to see the King abdicate in favor of his son. The Vatican would dislike a polarization of Catholic and Protestant sentiment in Belgium over this issue. Furthermore, some Vatican leaders probably fear that Church insistence on a stand which endangers the unity of the country might prejudice the position of the Belgian Catholic Party and tend to alienate the republican following of other European Catholic Parties as well.

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SPECIAL ARTICLE

FRENCH CARTELS THREATEN TRADE LIBERALIZATION

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The ECA-sponsored program of trade liberalization for Europe is threatened by increasing support in France for the revival of the prewar system of European cartels. This trend intensifies the restrictive practices hindering the attainment of greater efficiency in French production by means of free domestic and international competition. ECA insistence that cartels and trade associations will have adverse effects on European trade liberalization has led the Government to sponsor a so-called anti-trust bill, but Government officials are swayed by industry's argument (concurrent in by labor) that unlimited competition will be detrimental to French business interests and workers. The alleged "anti-trust" bill might in fact be called "pro-trust" as it is not only ineffective in curbing cartels, but actually requires the Government to force all companies within a particular industry to become members of a cartel, provided a majority of the companies involved so request.

In addition to various existing international cartels in which the French participate, there was formed in 1949 a tentative "gentleman's agreement" (which has so far not functioned well) between the major French and Italian steel trusts. This agreement provides that French mines will supply certain amounts of North African ore to Italy, which is also obligated to buy established quantities of steel products from France. Belgium and Luxembourg are pushing for an "entente" with France for the allocation of foreign steel markets, so that sharp competition will not develop among the three countries. French interests have given serious thought to an agreement with the German electrical industry, and are likely to promote an arrangement with German steel producers after completion of the modernization program has expanded French markets and has put the French in a stronger bargaining position. In their keen desire for agreements with German producers, the French industrialists are motivated by traditional fears of German competition, which, furthermore, provide a patriotic argument against the critics of cartels.

The idea of trade associations, both internal and external, has a firm hold on French and other European producers. The associations within France have been an

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important factor in maintaining the present high price levels by curtailing production to keep it below demand, dividing the market, and actually fixing prices so as to insure a profit for the least efficient members of the associations. The prevalent fear among producers is that the abolishment of these practices would lead to cut-throat domestic and inter-national competition, with the more inefficient among them being forced out of business. Even the most efficient manufacturers, who stand to gain under a competitive regime, are psychologically conditioned against investing in the expansion which would be necessary to meet the demands formerly satisfied by their co-producers.

The US would like to see these restrictive practices outlawed so that productivity (rate of output per man-hour) could be augmented. It is believed the resulting increased supplies and lower production costs per unit would lead manufacturers of exports to reduce prices and obtain greater foreign markets, consequently alleviating French foreign trade problems. Powerful business interests however, are too determined, and the Government is too prone to appease them, for either to play a constructive role in remedying the situation.

French businessmen, if left to themselves, will continue to develop the prewar pattern of the European cartel system, and progress toward ECA's goals of a high level of trade and a rapid rationalization of production in Europe will be severely impeded.

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